

Tennessee Student Assistance Corporation

December 2002

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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

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John G. Morgan
Comptroller

December 13, 2002

The Honorable John S. Wilder
Speaker of the Senate
The Honorable Jimmy Naifeh
Speaker of the House of Representatives
The Honorable Thelma M. Harper, Chair
Senate Committee on Government Operations
The Honorable Mike Kernell, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the performance audit of the Tennessee Student Assistance Corporation. This audit was conducted pursuant to the requirements of Section 4-29-111, *Tennessee Code Annotated*, the Tennessee Governmental Entity Review Law.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the corporation should be continued, restructured, or terminated.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/dlj
02/038

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit
Tennessee Student Assistance Corporation
December 2002

AUDIT OBJECTIVES

The objectives of the audit were to determine the corporation's legislative mandate and the extent to which it has carried out that mandate efficiently and effectively and to make recommendations that might result in more efficient and effective operation of the corporation.

FINDINGS

Compliance Reviews of Institutions and/or Lenders Are Not Formally Tracked, Documentation Is Incomplete, and Work Is Duplicative*

TSAC's Compliance Section is responsible for reviewing the lenders in the student loan programs and the institutions those students attend, based on certain criteria. Although TSAC appears to be performing the reviews as required, we identified problems that may limit the efficiency and effectiveness of the review process. First, TSAC has no formal system for tracking institution or lender reviews, and available documentation is not updated or complete. Second, lender reviews done by TSAC are similar to reviews done by the U.S. Department of Education. Third, some lenders are reviewed repeatedly, while other, smaller lenders may seldom, if ever, be reviewed. Finally, reviews were not always completed in a timely manner (page 9).

The General Assembly May Wish to Remove Several Inactive Programs From Statute

There are four programs related to TSAC that are inactive yet still remain in statute. These programs are the Tennessee Student Employment Incentive Program, the Loan-Scholarship Program for Graduate Nursing Students, the Loan-Scholarship Program for Medical or Osteopathic Students, and the Taylor Plan (page 13).

*Some portions of this finding were also discussed in the 1994 performance audit of the corporation.

OBSERVATIONS AND COMMENTS

The audit also discusses the following issues: the federal recall of reserve funds and the status of the process to revoke the professional licenses of persons who default on their student loans (page 8).

ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to consider removing the following inactive programs from statute: the Tennessee Student Employment Incentive Program, the Loan-Scholarship Program for Graduate Nursing Students, the Loan-Scholarship Program for Medical or Osteopathic Students, and the Taylor Plan. Before taking such action, however, the General Assembly may wish to review the current need for these programs and reactivate any that are found to be needed (page 14).

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Performance Audit

Tennessee Student Assistance Corporation

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Performance Audit Tennessee Student Assistance Corporation

INTRODUCTION

PURPOSE AND AUTHORITY FOR THE AUDIT

This performance audit of the Tennessee Student Assistance Corporation was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. Under Section 4-29-224, the corporation is scheduled to terminate June 30, 2003. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the corporation and to report to the Joint Government Operations Committee of the General Assembly. The performance audit is intended to aid the committee in determining whether the corporation should be continued, restructured, or terminated.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to determine the responsibility mandated to the corporation by the General Assembly,
2. to determine the extent to which the corporation has met its legislative mandate,
3. to evaluate the efficiency and effectiveness of the corporation, and
4. to recommend possible alternatives for legislative or administrative action that may result in more efficient and effective operation of the corporation.

SCOPE AND METHODOLOGY OF THE AUDIT

The audit reviewed the activities of the Tennessee Student Assistance Corporation from May through August 2002. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America and included

1. review of applicable legislation and corporation policies and procedures;
2. attendance at relevant legislative and corporation meetings;
3. interviews with corporation staff and with a representative of the U.S. Department of Education; and

4. examination of the corporation's records, files, and reports, and reports from GuaranTec, the corporation's service company.

The General Assembly has designated the Comptroller of the Treasury both to serve as a board member of the Tennessee Student Assistance Corporation and to audit the agency.

ORGANIZATION AND RESPONSIBILITIES

The Tennessee Student Assistance Corporation (TSAC) was created by the legislature in 1974 by Section 49-4-201, *Tennessee Code Annotated*, as a public nonprofit corporation to administer student assistance programs. The corporation is Tennessee's designated federal guaranty agency responsible for the administration of post-secondary education loan programs authorized by Title IV of the Higher Education Act of 1965 and further authorized by Section 49-4-401, *Tennessee Code Annotated*. TSAC also administers other state and federal student assistance programs as authorized by the General Assembly.

Section 49-4-202, *Tennessee Code Annotated*, defines the governing body for TSAC as a 17-member board of directors:

- Governor
- Commissioner of Education
- State Treasurer
- Comptroller of the Treasury
- Commissioner of Finance and Administration
- Executive Director of the Tennessee Higher Education Commission
- President of the Tennessee Proprietary Business School Association
- President of the Tennessee Independent Colleges and Universities Association
- Chair of the Tennessee Independent Colleges and Universities Association
- President of the University of Tennessee
- Chancellor of the Tennessee Board of Regents
- President of the Tennessee Association of Student Financial Aid Administrators
- One representative of a commercial lender
- One student enrolled in an institution of higher education in Tennessee
- Three private citizens involved in education but not employed by or professionally affiliated with any institution of higher education in the state

The daily operation of TSAC is managed by an executive director appointed by the board and assisted by 31 administrative staff. In addition, there are two Guarantec (loan servicer) representatives located in the TSAC office. TSAC is divided into five divisions: Information Systems, Fiscal, Compliance, Grant Administration, and Loan Administration. (See the organization chart on page 4.) The Information Systems Division oversees the mainframe system and computer needs of the agency. This division must effectively maintain and manage information for the grant, teacher loan/scholarship, and academic scholarship programs. The Fiscal Division maintains the accounting for state and federal financial aid programs and is responsible for reporting to both. For fiscal year 2002, the corporation had administrative expenditures of \$9,820,940.

The Compliance Division oversees the administration of three scholarship programs: the Robert C. Byrd Honors Scholarship Program, the Minority Teaching Fellows Program, and the Christa McAuliffe Scholarship Program. This division is also responsible for reviewing lenders and institutions for compliance with regulations. The Grant Administration Division manages the Tennessee Student Assistance Award Program (TSAA), the Tennessee Student Loan Program, the Ned McWherter Scholars Program, the Dependent Children Scholarship Program, and the Tennessee Teaching Scholars Program. The Loan Administration Division is responsible for oversight of all loans that are part of the Federal Family Education Loan Program (FFELP), authorized in Title IV of the Higher Education Act of 1965. Loans are guaranteed by TSAC with reinsurance provided by the U.S. Department of Education.

ACTIVE PROGRAMS ADMINISTERED BY TSAC

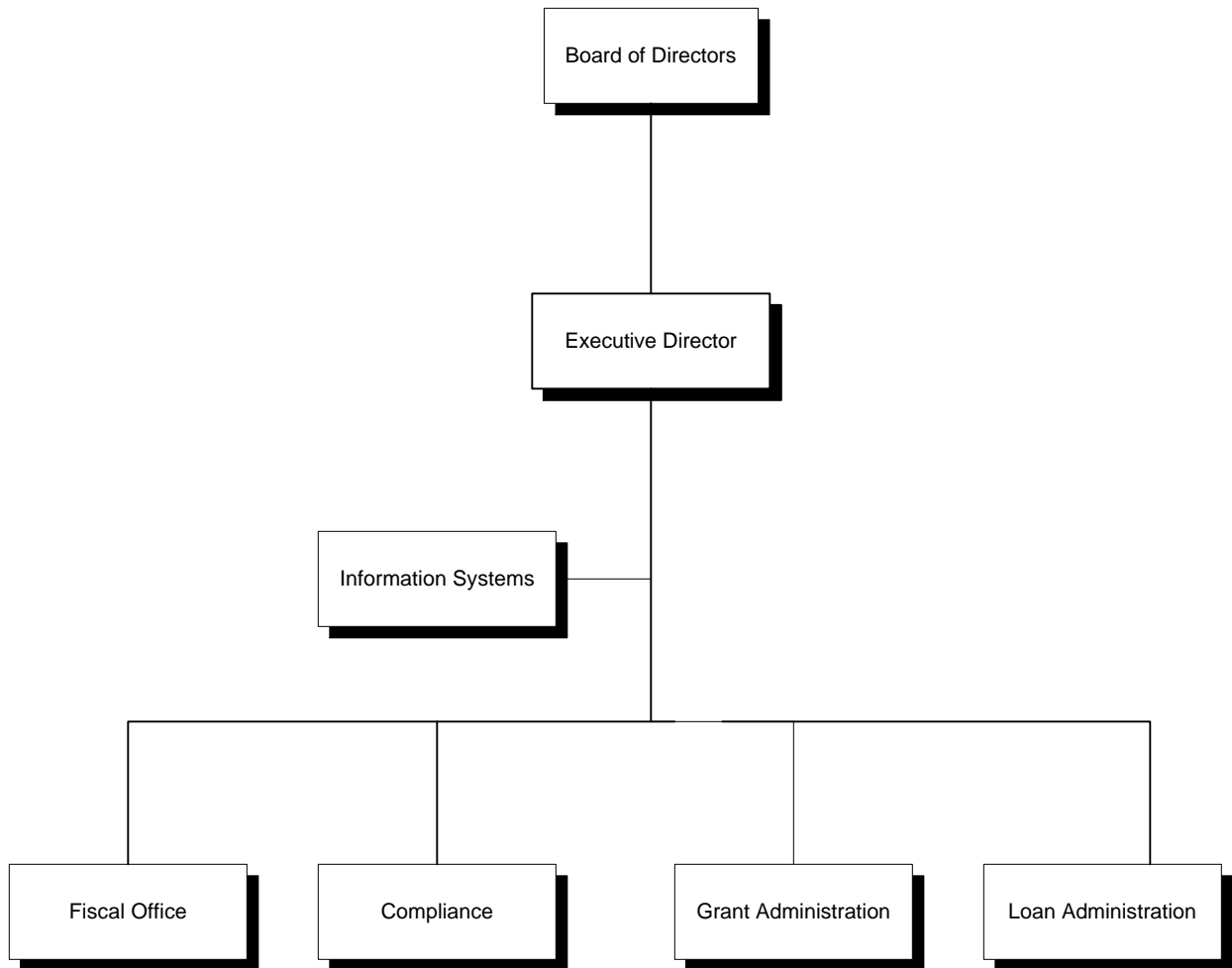
The Tennessee Student Assistance Corporation actively administers three federally insured student loan programs, one state loan program, two loan/scholarship programs, four scholarship programs, and the Tennessee Student Assistance Awards grant program. Following is a brief description of each program.

Federally Insured Loans

Stafford subsidized loan program – This program allows undergraduate and graduate students to receive long-term, low-interest educational loans while attending approved educational institutions. To be eligible, a student must be enrolled at least half-time in an approved program and have financial need. Students obtain from private financial institutions loans insured against default by the U.S. Department of Education. Eligible undergraduate students may borrow up to \$2,625 for the first year, \$3,500 for the second year, and \$5,500 for the third year and above. A total of \$23,000 in subsidized loans may be obtained. Graduate or professional students may borrow up to \$8,500 per academic year, with a limit of \$65,500 in subsidized loans (including undergraduate loans).

Stafford unsubsidized loan program – This program is similar to the Stafford subsidized loan program except that loans are not need-based, and interest accrues while a student is in school and during the grace period.

**Tennessee Student Assistance Corporation
Organization Chart
July 2002**



Parent Loan for Undergraduate Students (PLUS) – The PLUS program is a federally guaranteed loan program providing supplemental funds for academic expenses in addition to the Stafford loans. PLUS loans are made to parents of dependent students for educational expenses of the student without regard to family income. Parents obtain from private financial institutions loans insured against default by the U.S. Department of Education. Parents may borrow up to the cost of attendance minus other financial aid, with no aggregate limit.

State Loan

Tennessee Student Loan Program (TSLP) – According to TSAC staff, this program was created to be a lender of last resort for Tennessee students. Section 49-4-505, *Tennessee Code Annotated*, established the program as a revolving loan fund. No loan has been made through TSLP since 1983, but the money in the fund is used for other purposes as authorized by statute. The balance may be used to cover overexpenditures in the TSAA program and to conduct training, administration, and default management for students, schools, and lenders in the Federal Family Education Loan Program and the Student Loan Program.

Loan/Scholarship Programs

Tennessee Teaching Scholars Program – This program was enacted by the General Assembly in 1995 to replace both the Teacher Loan/Scholarship Program and the Teacher Loan Program for Disadvantaged Areas of Tennessee. The goal of this program is to encourage exemplary students to enter the teaching field. Participation in this forgivable loan program is limited to college juniors, seniors, and post-baccalaureate students formally admitted to a teacher education program in Tennessee. Recipients of the awards incur an obligation to teach one year in a Tennessee public school for each year the award is received.

Minority Teaching Fellows – This program provides forgivable loans to minority high school graduates who wish to pursue teaching careers. An eligible student must have at least a 2.75 high school GPA and have either scored at least 18 on the ACT (or 850 on the SAT) or have been in the top 25% of their high school class. Recipients may be awarded up to \$5,000 per academic year up to a maximum of \$20,000 over four years. Loans are forgiven at the rate of one year's award for each year of teaching at the K-12 level in a Tennessee public school.

**Comparison of Teaching Scholarship Programs
Through 2001-2002 Academic Year**

Program	Recipients	Number who fulfilled or are fulfilling teaching obligation	Percent
Paul Douglas Teacher Scholarship Program (federal), <i>Inactive since 1995</i>	226	187	83%
Teacher Loan/Scholarship, Academic Shortage Areas, <i>Inactive since 1999</i>	1,402	632	45%
Teacher Loan/Scholarship, Disadvantaged Areas, <i>Inactive since 1998</i>	71	39	55%
Tennessee Teacher Corps (federal) <i>Inactive since 1995</i>	54	49	91%
Tennessee Teaching Scholars <i>Active since 1995</i>	713	446	90%*
Minority Teaching Fellows Program <i>Active since 1989</i>	341	179	67%*

* Calculation excludes recipients who are still in school.

Source: Data obtained during the TSAC board meeting on June 26, 2002.

Scholarships

Dependent Children Scholarship Program – This program provides nonrepayable awards to undergraduate students who are dependent children of a law enforcement officer, a fireman, or an emergency medical service technician who has been killed or totally and permanently disabled while performing duties within the scope of such employment. The amount of the award can cover the costs of up to four academic years of full-time enrollment including tuition, books, supplies, and room and board.

Robert C. Byrd Honors Scholarship Program – This program awards scholarships to entering college freshmen. Eligible students must have achieved at least a 3.5 high school GPA or an average GED score of 57. Alternatively, a student may have a 3.0 high school GPA and score in the top quartile nationally on the ACT or SAT exam. Scholarships may be used to attend any college in the United States and are renewable for a total of four years.

Christa McAuliffe Scholarship Program – This program was created to provide financial assistance to students who aspire to be career teachers. Eligible students must be admitted full-time for the senior year of an approved teacher education program. The program is funded by the annual interest on the principal of contributions made by private citizens when the program was established in 1986. The program awards one scholarship of \$500 in most years.

Ned McWherter Scholars Program – This program encourages academically superior Tennessee high school graduates to attend college in Tennessee. Eligible students must have a minimum 3.5 high school GPA and an ACT or SAT score in the top 5% nationally. Students must also maintain a 3.2 GPA while in college to remain eligible. Awards are \$3,000 per academic year and must be matched by the college or university.

Grants

Tennessee Student Assistance Award – This program makes nonrepayable financial awards to needy undergraduate students. For 2002-2003, the maximum award is \$2,130 for eligible Tennessee postsecondary institutions and \$5,202 at eligible Tennessee independent postsecondary institutions.

Awards for school year 2002-2003 were made through these programs as detailed below.

Awards by Program Fiscal Year 2003

Active Programs	Source of Funding	Number	Amount
<i>Federally insured loans</i>			
Stafford subsidized	Federal/Private	90,426	\$298,258,073
Stafford unsubsidized	Federal/Private	62,582	\$231,873,434
Parent Loan for Undergraduate Students	Federal/Private	6,836	\$ 4,977,008
<i>State loan</i>			
Tennessee Student Loan	State	0	0
<i>Loan/scholarship</i>			
Tennessee Teaching Scholarship	State	209	\$ 751,728
Minority Teaching Fellows	State	116	\$ 580,000
<i>Scholarship</i>			
Dependent Children Scholarship	State	15	\$ 62,530
Robert C. Byrd Honors Scholarship	Federal	560	\$ 840,000
Christa McAuliffe Scholarship	Private	1	\$ 500
McWherter Scholars	State/Private	195	\$ 585,000
<i>Grants</i>			
Tennessee Student Assistance Award	State/Federal	46,914	\$ 70,967,161

Source: Documentation provided by TSAC staff

OBSERVATIONS AND COMMENTS

The issues discussed below did not warrant findings but are included in this report because of their effect or potential effect on operations of the corporation and on the citizens of Tennessee.

FEDERAL RECALL OF RESERVE FUNDS

According to a July 11, 2002, memo from the United States Department of Education, that department is recalling a portion of federal reserve funds held by guaranty agencies participating in the Federal Family Education Loan Program. As required by the Balanced Budget Act of 1997, there are two parts to the recall. The first portion is a recall of \$1 billion from all guaranty agencies, based on the amount each held in reserve on September 30, 1996. According to TSAC management, these reserve funds are accumulated from interest, insurance, and collecting old loans.

TSAC's portion of the first part of the recall is \$23,597,217, due to the U.S. Treasury by September 1, 2002. The second part of the recall is \$250 million and is also based on the September 30, 1996, reserve balance. The portion assessed on TSAC is \$3,989,492, of which \$1,356,427 was also due by September 1, 2002. (According to information provided at the September 23, 2002, TSAC board meeting, the first two recall payments were made as required.) This is federal money and has no effect on state appropriations other than the future interest that will not be earned on the money that has presently been put aside to pay the amount due and will not be in the fund following payment to the Department of Education. TSAC has been allowed to use that interest for "default prevention activities."

REVOCATION OF PROFESSIONAL LICENSES

In 1999, the Tennessee General Assembly passed legislation requiring that licensing authorities (i.e., boards, commissions, committees, etc.) attached to the Department of Commerce and Insurance's Division of Regulatory Boards or the Department of Health's Division of Health Related Boards "suspend, deny or revoke the license of, or take other such appropriate disciplinary action against, any person who has defaulted on a repayment or service obligation" related to a financial assistance program administered by TSAC or other guaranty agency. Legislation also encouraged the Supreme Court "to establish guidelines to suspend, deny or revoke the license of an attorney who is delinquent or in default on a repayment or service obligation" related to a program administered by TSAC or another guaranty agency. In order to begin to implement this legislation, the administrator of TSAC's loan program is working with staff of the Division of Health Related Boards to devise a way to run Guarantec's database of loan recipients against Health's database of "healing arts" professionals. In addition, a new Internet-based system being installed for TSAC will allow a new code to be added to loan recipients' identifying information to further define their status. This addition will make it easier

to select only those loan recipients who are in default, instead of having to run the entire Guarantec database against the database of licensed professionals.

FINDINGS AND RECOMMENDATIONS

1. Compliance reviews of institutions and/or lenders are not formally tracked, documentation is incomplete, and work is duplicative

Finding

TSAC's Compliance Section is responsible for reviewing the lenders in the student loan programs and the institutions those students attend, based on certain criteria. Although TSAC appears to be performing the reviews as required, we identified problems that may limit the efficiency and effectiveness of the review process.

Lender Reviews

As the state guaranty agency for Tennessee, TSAC falls under 34 CFR 682.410(c)(1)(i)(A), which requires TSAC to conduct biennial on-site program reviews of each participating lender whose dollar volume of Federal Family Education Loans made or held by the lender and guaranteed by the agency

1. equaled or exceeded two percent of the total of all loans guaranteed in that year by the agency,
2. caused the lender to be one of the ten largest lenders whose loans were guaranteed in that year by the agency, or
3. equaled or exceeded \$10 million in the most recent fiscal year.

In order to conduct the reviews each year, TSAC's lender review officer obtains from the loan service agency (Guarantec) reports detailing the top ten lenders for that year and the loans that TSAC has guaranteed for each lender. The officer then selects a sample of 50 loans from each lender. In general, the 50 loans are reviewed for due diligence, repayment, interest accrual and charges, deferments, and disbursements. In January 2000, however, the U.S. Department of Education decided that the reviews for the next two years should focus on reconciling National Student Loan Data System (NSLDS) information with lenders and guaranty agencies. The TSAC reviewer was to verify that the same information was on file at the bank, the guaranty agency, and on NSLDS.

Institution Reviews

The U.S. Department of Education requires reviews of schools with a cohort default rate greater than 20%. (The cohort for a particular fiscal year consists of all students who, during that year, entered repayment on a federal student loan.) In addition, Tennessee Student Assistance Corporation Rule 1640-1-1-.05(1) states that “the Corporation shall conduct periodic program reviews to evaluate the general operation of the financial aid office relative to the institution’s management of the Tennessee Student Assistance Award Program.” In recent years, there have been no schools that required review because of high default rates. Therefore, TSAC staff chose schools based on length of time since the last review and the presence of serious findings during that review. TSAC reviewed 16 schools in fiscal year 2001 and 24 in fiscal year 2002.

Our review of the procedures and monitoring processes for institution and lender reviews identified the following problems:

TSAC has no formal system for tracking institution or lender reviews, and available documentation is not updated or complete. According to staff, the institution review section has no formal tracking process beyond penciling information into calendars and keeping a “mental record” of when review-related items (e.g., institution responses) are due. Staff indicated that the section maintains a list of school reviews by date of last review; however, when we requested the document, staff stated that the list had not been updated in a long time and would need to be updated before our review. The list we finally received does not appear to have been updated since February 2001, 18 months prior to the date of request.

We compared the school review list to the schools eligible to receive Tennessee Student Assistance Award (TSAA) funds. Virtually all eligible schools had either been reviewed in the past ten years or were on the tentative schedule to be reviewed by the end of 2002. In addition, we examined the files for three institution reviews that were closed during 2001 or 2002. Each file contained a compliance checklist, but the checklist was not completed in any of the files reviewed. It appears that the checklist, which tracks the dates when items in the review process were completed, is not being used consistently.

In the lender review area, TSAC review staff do not have a formal system for tracking the dates of lender reviews and do not centrally log the dates of the reviews. This problem was also noted in the 1994 Performance Audit of TSAC. During this current audit, we repeatedly requested documentation showing tracking of completed reviews. Finally, the lender review officer went through the files for the reviews completed over the last two-year period and provided us with a list. The lender review officer was unsure who is responsible for ensuring that the required ten reviews were completed in each two-year period.

Lender reviews done by TSAC are similar to reviews done by the U.S. Department of Education. The lender reviews conducted by TSAC are virtually the same as the reviews conducted by federal auditors. According to a U.S. Department of Education representative, “It is expected that the guaranty agency review would be comparable to the reviews done by the Department of Education because we are looking at the same data and using the same regulations.” The

representative also said, “To provide more consistency in the review process by both the guaranty agencies and the department, we are close to completing a review guide that will be used by both entities.” It seems that the U.S. Department of Education is striving to make reviews completed by the federal auditors and the guaranty agencies the same.

Some lenders are reviewed repeatedly, while other, smaller lenders may seldom, if ever, be reviewed. The 1994 Performance Audit of TSAC stated, “TSAC has not conducted on-site reviews of all participating lenders for compliance with state and federal requirements for the student loan program.” This statement is still true. An analysis of lenders for 1999, 2000, and 2001 indicated that, by reviewing the top ten lenders, TSAC also covered the other two federal review criteria (i.e., lenders with total loans exceeding \$10 million and lenders with total loan volume equal to or exceeding two percent of the total loan volume guaranteed by TSAC). The analysis also indicated that the top ten lenders are virtually the same every year. Therefore, it appears that TSAC is reviewing, for the most part, the same few lenders over and over. In addition, according to TSAC staff, the different guaranty agencies often have the same top ten lenders. These lenders are, therefore, reviewed multiple times during the same period so that any significant problems would likely have already been found. Through reviews of servicers (such as Sallie Mae) and by providing technical assistance, TSAC “looks at” additional lenders, but there was no evidence that all lenders had been reviewed.

Reviews were not always completed in a timely manner. For the NSLDS reviews, lender review information was gathered from different computer databases (GuaranTec, NSLDS, and lender). The reviews took an average of five months to complete. The lender review process is set up on a two-year cycle. The current review period began January 1, 2002, and will end December 31, 2003. As of July 25, 2002, no reviews for this two-year time period had been completed and three reviews from the previous two-year time period were still awaiting closure. The three pending reviews had been in process an average of ten months. Review staff expressed confidence that the ten reviews for the current period would be completed by December 31, 2003, even though only eight reviews have been completed for the previous two-year period. Staff blame the lengthy time period on the amount of time it takes to update NSLDS through the U.S. Department of Education. Even though TSAC may have all the documentation that a loan has been paid off, it takes time to convince the department of the facts and then to change the data in the database. TSAC is now working with Sallie Mae to update and reconcile information. TSAC has provided a tape that includes a “data dump” of all the loan files for Sallie Mae to run against its data and then work to correct discrepancies. They are starting with cancelled and paid-off loans and will then expand to other files.

Recommendation

Institution Reviews

TSAC staff should implement a formal tracking system for institution reviews, and reviewers should complete review documentation to help ensure that all review steps are completed and any institution deficiencies appropriately addressed.

Lender Reviews

TSAC staff and management should work with the U.S. Department of Education to decrease the amount of lender review work duplicated by different agencies. TSAC management should implement periodic random reviews of all lenders to ensure that they are complying with laws and regulations. Reviewers should ensure that review reports are closed in a timely manner, and management should ensure that the required number of reviews are completed during each two-year period. Finally, TSAC should implement a system to regularly monitor the completion and timeliness of reviews.

Management's Comment

We concur. The operation of the TSAC Compliance Division has evolved from a manual system of tracking to an automated system. Within the last year the U.S. Department of Education has made a new automated system (PEPS – Postsecondary Education Participants System) available to all guaranty agencies. TSAC has been required to enter data on all scheduled and completed lender and school reviews. TSAC has the capability of generating reports that will aid in the monitoring of findings, review dates, default rates, loan volumes, liability, etc. A copy of a PEPS report example has been previously forwarded to the performance auditors.

The compliance checklist is an internal checklist that is used to ensure the proper steps have occurred in program reviews. TSAC has reviewed its procedures to ensure that the compliance checklist is completed as required.

The U.S. Department of Education (ED) and guaranty agencies are aware of the redundancy in lender and school program reviews. A national committee has been formed with representation from the ED, guaranty agencies, and servicers. The committee's goal is to utilize the capabilities of all parties required to conduct program reviews so that redundancy is eliminated. The committee is currently meeting and is expected to issue a report in the near future. TSAC is participating in this committee and will fully subscribe to the recommendations of the committee as required by ED. TSAC has also previously sought out joint program reviews with ED and other guaranty agencies in the past and will continue to do so.

Completing lender program reviews in a timely manner is a high priority with TSAC. A contributing problem in the past has been conflicting data between the lender, servicer, and/or guaranty agency. Considerable resources and time have been devoted to rectify this problem. TSAC personnel and its servicer, Guarantec, have worked to correct this problem for several months. On-going weekly conference calls are devoted to this problem. As a result, the conflicting data has been resolved and a procedure for quickly identifying and correcting future conflicts will be incorporated.

2. The General Assembly may wish to remove several inactive programs from statute

Finding

There are four programs related to TSAC that are inactive yet still remain in statute. This may be confusing and misleading, and the General Assembly may wish to review these sections and consider repealing them. The programs are discussed briefly below.

Summary of Inactive Programs in Statute

<i>Program</i>	<i>TCA Sections</i>	<i>Last Year Award Made</i>
Tennessee Student Employment Incentive Program	49-7-2801 to 2806	Never funded
Nursing Loan/Scholarship	49-4-702	1982, none outstanding
Medical Loan/Scholarship	49-4-703	1980, none outstanding
Taylor Plan	49-7-2501 to 2508	Never funded

Tennessee Student Employment Incentive Program

The Tennessee Student Employment Incentive Program (TSEIP) is intended to be a state-funded work-study program. The program, which was created by Chapter 1105 of the 1998 Public Acts, has never been funded, and the TSAC staff position created to manage the program was never filled. TSAC management does not believe the program is necessary because the federal work-study program has been greatly expanded. In addition, unlike the federal counterpart to this program, TSEIP is not based on the need of the applicant, so students could be paid who do not have a financial need.

Loan-Scholarship Program for Graduate Nursing Students

Loan-Scholarship Program for Medical or Osteopathic Students

These programs were intended to provide money for tuition in return for years of practice in Tennessee. They were created by the General Assembly in 1974 and remain in statute as Sections 49-4-702 and -703, *Tennessee Code Annotated*. Neither program has made a loan in at least 20 years, and the medical/osteopathic program was statutorily halted in 1980. All of the prior recipients who were in repayment have completely repaid their loans, so there is no activity in either program.

Taylor Plan

The “Taylor Plan” described in Section 49-7-2501 et seq., *Tennessee Code Annotated*, was intended to pay a child’s college tuition if that child meets the grade and ACT standards and “stays out of trouble.” The program, which was created in 1992, has never been funded.

Recommendation

The General Assembly may wish to consider removing these inactive programs from statute. Before taking such action, however, the General Assembly may wish to review the current need for any of these programs and reactivate any that are found to be needed.

Management's Comment

We concur. The indicated programs have been inactive primarily because of the lack of funding. TSAC will complete the required review as long as the General Assembly determines it is valid public policy to have these provisions in the law.

RECOMMENDATIONS

LEGISLATIVE

This performance audit identified one area in which the General Assembly may wish to consider statutory changes to improve the efficiency and effectiveness of the Tennessee Student Assistance Corporation's operations.

1. The General Assembly may wish to consider removing the following inactive programs from statute: the Tennessee Student Employment Incentive Program, the Loan-Scholarship Program for Graduate Nursing Students, the Loan-Scholarship Program for Medical or Osteopathic Students, and the Taylor Plan. Before taking such action, however, the General Assembly may wish to review the current need for any of these programs and reactivate any that are found to be needed.

ADMINISTRATIVE

The Tennessee Student Assistance Corporation should address the following areas to improve the efficiency and effectiveness of its operations.

1. TSAC staff should implement a formal tracking system for institution reviews, and reviewers should complete review documentation to help ensure that all review steps are completed and any institution deficiencies appropriately addressed.
2. TSAC staff and management should work with the U.S. Department of Education to decrease the amount of lender review work duplicated by different agencies. TSAC management should implement periodic random reviews of all lenders to ensure that they are complying with laws and regulations. Review staff should ensure that review reports are closed in a timely manner, and management should ensure that the required number of reviews are completed during each two-year period. Finally, TSAC should implement a system to regularly monitor the completion and timeliness of reviews.

APPENDIX TITLE VI INFORMATION

All programs or activities receiving federal financial assistance are prohibited by Title VI of the Civil Rights Act of 1964 from discriminating against participants or clients on the basis of race, color, or national origin. In response to a request from members of the Government Operations Committee, we compiled information concerning federal financial assistance received by the Tennessee Student Assistance Corporation, and the corporation's efforts to comply with Title VI requirements. The results of the information gathered are summarized below.

The Tennessee Student Assistance Corporation received \$64,735,320 in federal revenue for fiscal year 2002, of which \$58,712,480 was for the Federal Family Education Loan Program, \$5,023,715 was for TSAC administration, and \$999,125 was for TSAC awards. The federal government, through the U.S. Department of Education, issues rules and regulations that govern student financial assistance. According to information provided by TSAC, the vast majority of financial aid programs are based on need, which is measured by a federal formula.

We obtained and reviewed the "FY 2003 (2002-2003) Title VI Implementation Plan," which was filed with the Division of State Audit as required. TSAC's Compliance Administrator also acts as the Title VI coordinator. His duties (with assistance from TSAC's Personnel Officer) include preparing the annual Title VI implementation plan, ensuring that TSAC staff have received orientation and information relating to the Title VI program, and ensuring that Title VI information is appropriately displayed in TSAC's office and on relevant TSAC documents. The Compliance Administrator also monitors the bidding process on contracting new services, maintains contact with local organizations to identify applicants from protected classes, and monitors regional demographics of program applicants. An annual meeting between the Compliance Administrator, the Executive Director, and the program administrators focuses on any complaints received, problems of general compliance, and any Title VI deficiencies. There have been no Title VI complaints in the last two years.

TSAC requires a statement of compliance with Title VI in all contracts from every contracting agency, as well as from every subrecipient. Staff also monitor Title VI complaints received by contractors (one contract agency had one complaint during fiscal year 2001). In addition, TSAC surveyed 121 schools, colleges, and universities regarding their fiscal year 2002 Title VI complaints. The survey indicated that 110 had received no complaints, 8 had received complaints that were resolved during the fiscal year, and 3 still had complaints pending.

Below are tables detailing TSAC's staff, board members, and program participants by gender and ethnicity, as well as a list of companies and institutions that contract with TSAC.

**Staff of the Tennessee Student Assistance Corporation by Title, Gender, and Ethnicity
June 2002**

<i>Title</i>	<i>Gender</i>		<i>Ethnicity</i>			
	<i>Male</i>	<i>Female</i>	<i>White</i>	<i>Black</i>	<i>Asian</i>	<i>Other</i>
Account Clerk	1	1	1	0	0	1
Accountant	1	0	1	0	0	0
Accounting Technician	1	2	2	0	1	0
Administrative Assistant	1	1	2	0	0	0
Administrative Secretary	0	5	4	1	0	0
Administrative Services Assistant	1	1	2	0	0	0
Clerk	1	2	3	0	0	0
Collections Manager	1	0	1	0	0	0
Executive Director	1	0	1	0	0	0
Financial Aid Compliance Coordinator	1	0	1	0	0	0
Financial Aid Program Specialist	2	3	5	0	0	0
Fiscal Director	1	0	1	0	0	0
Information Systems Analyst	0	1	0	1	0	0
Secretary	0	1	0	1	0	0
Student Financial Aid Compliance Administrator	1	0	0	1	0	0
Student Grant & Scholarship Program Administrator	0	1	1	0	0	0
Student Loan Program Administrator	0	1	1	0	0	0
Totals	13	19	26	4	1	1

Total Employees = 32

**Board Members of the Tennessee Student Assistance Corporation
by Gender and Ethnicity
June 2002**

	<i>Gender</i>		<i>Ethnicity</i>	
	<i>Male</i>	<i>Female</i>	<i>White</i>	<i>Black</i>
Board members*	13	3	15	1

* As of June 2002, the board had one vacant position.

**Breakdown of Program Participants by Gender
Fiscal Year 2001-2002**

<i>Program</i>	<i>Male</i>	<i>Female</i>	<i>No Response</i>
Tennessee Student Assistance Award	7,427	18,470	88
Dependent Children Scholarship Program	3	5	
Tennessee Teaching Scholars Program	31	179	
Ned McWherter Scholars Program	103	98	
Minority Teaching Fellows Program	16	97	
Robert C. Byrd Honors Scholarship	148	368	
Christa McAuliffe Scholarship Program	0	1	

Source: *Tennessee Student Assistance Corporation FY2003 Title VI Implementation Plan*, Appendix A.

**Breakdown of Program Participants by Ethnicity
Fiscal Year 2001-2002**

<i>Program</i>	Black	White	Hispanic	Native American Indian	Chinese/Japanese/ Oriental	Other	No Response
Tennessee Student Assistance Award	7,519	15,575	155	48	62	222	2,404
Dependent Children Scholarship Program	1	7	0	0	0	0	0
Tennessee Teaching Scholars Program	23	183	1	0	1	2	0
Ned McWherter Scholars Program	1	181	0	0	12	7	0
Minority Teaching Fellows Program	109	0	3	0	1	0	0
Robert C. Byrd Honors Scholarship	35	453	3	4	11	10	0
Christa McAuliffe Scholarship Program	0	1	0	0	0	0	0

Source: *Tennessee Student Assistance Corporation FY2003 Title VI Implementation Plan*, Appendix A.

**TSAC Contracts With Companies and Institutions
Fiscal Year 2002-2003**

Company Name	Services Provided	Amount
National Student Loan Clearinghouse	Loan clearinghouse	\$ 27,541
GuaranTec, LLP	Loan servicer	5,167,408
Automated Collection Services, Inc.	Collection services	0
Total		<u>\$5,194,949</u>

Institution Name	Services Provided	Amount
Motlow State Community College	High School Guidance Program	\$ 1,728
Walters State Community College	High School Guidance Program	377
Northeast State Technical Community College	High School Guidance Counselor Program	1,164
Columbia State Community College	High School Guidance Counselor Program	1,046
UT – Chattanooga	High School Guidance Counselor Program	1,324
Roane State Community College	High School Guidance Counselor Program	2,274
Chattanooga State Community College	High School Guidance Program	1,221
Pellissippi State Technical Community College	High School Guidance Program	2,286
Austin Peay State University	High School Guidance Program	3,359
UT – Chattanooga	Peer Counseling Program	13,846
Carson-Newman College	Not Listed	1,680
Lee University	High School Guidance Counselor Program	2,048
Vanderbilt University Hospital	High School Guidance Program	2,395
Tusculum College	High School Guidance Program	2,274
		<u>\$37,022</u>

Source: Tennessee Student Assistance Corporation staff.